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STATE FOR SCA/CEN, EEB  
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E.O. 12958: N/A  
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SUBJECT: TURKMENISTAN: POTENTIAL OF THE PETROCHEMICALS INDUSTRY

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: Turkmenistan has decided to enter the petrochemical sector by building a new refinery and oil and gas cracker at a Soviet-era, white-elephant refinery in eastern Turkmenistan that never did reach its full production. A definitional mission carried out by a U.S. Trade and Development Agency (USTDA) consultant determined that Turkmenistani personnel lack the training and knowledge needed to ensure a successful start, even though the country has the cheap feedstock that makes it a good candidate for establishing a petrochemical industry. And, while locating a new petrochemical industry at the refinery might make political sense for the dying, one-industry town, the location lacks some important qualities, such as proximity to hydrocarbon fields and pipelines to transport oil and gas to the facility, that might make the difference between success and failure. END SUMMARY.

13. (SBU) USTDA carried out a definitional mission to Turkmenistan March 4-11 to assess potential areas of further technical assistance in the petroleum sector. As part of the definitional visit, a USTDA contractor met with a number of petroleum officials and made site visits to assess the potential for establishing a successful petrochemical sector in Turkmenistan. This visit was a result of earlier discussions between the U.S. government and the Government of Turkmenistan.

SEYDI TODAY -- TIRED, OUT OF DATE, AND LACKING RESOURCES

14. (SBU) Turkmenistan's Seydi refinery, located not far from Turkmenabat City in northeastern Turkmenistan, was designed in the 1970's to process sweet crude oil from Tyumen in Siberia via the Pavlodar (Russia)-to-Chimkent (via Uzbekistan) pipeline. The pipeline still exists, but no oil has flowed from outside of Turkmenistan to Seydi for years. The refinery's construction stopped in 1991 with installation of only two processing units of the original design: a crude oil refining unit (atmospheric distillation and desalter) with a capacity to process 6 million tons a year, and a catalytic reformer for 1 million tons of oil a year.

The reformer has not been operational since 1994 -- most likely because of its obsolete technology.

15. (SBU) The refinery currently processes a mixture of gas condensate from Mary and Lebap regions and crude oil from Yashildepe field, located 200 kilometers southeast of Seydi. The refinery currently processes around 1 million tons of oil a year to produce straight-run gasoline, diesel fuel, and heavy fuel oil. Insufficient supplies of raw materials forces the refinery to shut down several times a year to accumulate a critical mass of feedstock. The refinery was visibly not in operation during the March 8 USTDA visit.

#### TURNING A WHITE ELEPHANT INTO A HIGH-YIELD NEW SECTOR

16. (SBU) Seydi's chief engineer, Dovlet Berdiyev, told the USTDA consultant that a small team of engineers at the Seydi refinery had made a desk study of various petrochemical production configurations and had proposed to Turkmenistan's Cabinet of Ministers construction of a new refinery and a petrochemical facility next to the original production site. The proposed capacity for the new oil refining plant is 3 million tons of oil a year. Turkmenistani experts estimated that such production would saturate the demand for gasoline and diesel in central and eastern Turkmenistan. The excess crude, particularly in the west of the country, Turkmenistan plans to export overseas.

17. (SBU) However, assuring sufficient availability of raw materials for a Seydi petrochemical industry remains a question. Berdiyev noted Kazakhstani officials had earlier proposed to transport oil from the Kumkol field in Kazakhstan via the Pavlodar-Chimkent pipeline and process it at Seydi. However, he gave no additional

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information whether the Government of Turkmenistan was giving due consideration to this proposal, or to the possibility of an alternative supply from Uzbekistan. Transportation may also be a problem, since there are no pipelines from Turkmenistan's hydrocarbon fields to the Seydi complex.

18. (SBU) The Seydi staff also proposed to produce 200,000 tons of polyethylene from a new steam cracker and 90,000 tons of polypropylene from a new catalytic cracker and/or steam cracker, depending on the feedstock. When asked about the criteria for choosing these particular production capacities, Berdiyev responded that the proposal had used the Turkmenbashi refinery polypropylene installation as the benchmark for the new facility. The capacity of the steam cracker was based on the annual production of 3 billion cubic meters of gas and the methane content in the natural gas at Bagaja and Malay gas fields located near Seydi. Under their plan, the ethane that would be used for producing polypropylene will be extracted at the newly proposed refinery, although a new pipeline would need to be built from the fields. The remaining methane would be fed into the pipeline system. The propane and butane fractions would be extracted at the wellhead.

19. (SBU) Turkmenistan also wants to assess the potential for production of toiletries and detergents for the domestic market, but recognizes that a detailed marketing study is required to determine whether to produce feedstock or ready products. (NOTE: Yashildepe's crude has a good aromatics content. END NOTE.) However, the proposal with which the government is currently working is somewhat limited in its marketing content, since it only used prices in Russia for analysis.

110. (SBU) COMMENT: While Turkmenistan has the cheap feedstock it needs to develop a successful petrochemical sector, Seydi, with its distance from Turkmenistan's main hydrocarbon fields and its limited transportation opportunities, may not be the best location for establishing such a sector. It is also not clear that the scale of production that the authorities are planning will make the project competitive in a market that favors economies of scale. The government may have made a political decision to locate its new petrochemical facility at Seydi to help resuscitate the dying, one-industry town. Given the high cost (our USTDA consultant estimated \$4-5 billion) of building a steam cracking facility, and

Seydi's limitations, it is critically important that Turkmenistan understand from the beginning the cost of proceeding with this plan.

To do so, however, officials will need assistance, since even they acknowledge that they do not have the capacity to properly analyze the alternatives and make a well-informed decision. END COMMENT.

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